
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

13. Net assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation and less any outstanding debt related to the acquisition, construction, or improvement of those assets.

NOTE 2 – CASH AND INVESTMENTS

Deposits – At year-end the carrying values (book balances) of the County deposits with banks and savings institutions were \$16,081,974 and the balances carried by the bank were \$15,312,168. All cash of the primary government and its discretely presented component unit is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the *Code of Virginia* (a multiple financial institution collateral pool), or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The Commonwealth Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act.

The Act provides for a pooling of collateral pledged with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for any one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the Act are considered fully secured and thus are not categorized below.

Investments – Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of other states not in default, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, the African Development Bank, "Prime Quality" commercial paper, negotiable certificates of deposits, negotiable bank notes, and certain corporate notes rated AA or better by Moody's Investors Service, Inc; bankers' acceptances, overnight, term and open repurchase agreements, money market mutual funds; the State Treasurer's Local Government Investment Pool (LGIP), and State Non-Arbitrage Program (SNAP). Bond proceeds subject to arbitrage rebate are invested in the State Non-Arbitrage Program (See Note 1).

External Investment Pools – The County invests in an externally managed investment pool, the LGIP, which is not SEC-registered. Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and regulatory oversight of the pools rests with the Virginia State Treasury. The LGIP reports to the Treasury Board at their regularly scheduled meetings, and the fair value of the position in the LGIP is the same as the value of the pool shares. Investments authorized by the LGIP are the same as those authorized for local governments in Sec. 2.2-4500 et seq. of the *Code of Virginia*.

The County and its discretely presented component units' investments are subject to interest rate, credit, custodial credit, and concentration of credit risk as described below.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from increasing interest rates, the County's investment policy for non-restricted pooled cash and investments states that no security shall have a maturity exceeding seven years. The weighted average maturity for the portfolio shall be less than 180 days. The County's

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

investment policy for restricted accounts states that the securities will have a maximum maturity consistent with the nature of the restricted accounts.

The following reflects the fair value and the weighted average maturity (WAM) of the County's investments as of June 30, 2005. WAM expresses investment time horizons, the time when investments become due and payable, in years, weighted to reflect the dollar size of the individual investments within an investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type. For purposes of the WAM calculation, the County assumes that all of its investments will be held to maturity.

Fair Value and Weighted Average maturity of Investments at June 30, 2005:

	Fair Value	Weighted Average Maturity (Days)
Money Market/ Money Market Mutual Funds:		
Pooled Investments:		
Treasury Obligation Fund	\$ 23,244,246	1
State Treasurer's Local Government Investment Pool	17,545,748	1
U.S. Government Agency Securities	8,920,030	916
Restricted Investments:		
Virginia State Non-Arbitrage Program (SNAP)	8,718,243	1
Total Investment	\$ 58,428,267	141

Credit Risk – State statutes authorize the County to invest in various instruments as described above. The County's investment policy, however, does not provide for investments in obligations of other states and political subdivisions outside of the Commonwealth of Virginia. To minimize credit risk, the County's investment policy seeks to diversify its portfolio by limiting the percentage of the portfolio that may be invested in any one type of instrument. It is the County policy to invest in time deposits and savings accounts in banks and savings and loan associations organized under the laws of Virginia approved for the deposit of other funds of the Commonwealth of other political subdivisions and doing business in and situated in the state. The Commonwealth's approved list is partially based on a rating of A-1 by Standard's and Poor's and Aa by Moody's Investor Services. The County will only invest in money market or mutual funds with a rating of AAA by at least two nationally recognized statistical rating organizations pursuant to County practice. In addition, the County's investment policy authorizes the purchase of "prime quality" commercial paper or "high quality" corporate notes of U.S. corporations having at least two of the following three ratings: A-1, P-1, and F-1, as rated by Standard & Poor's, Moody's and Fitch Investor's Service rating services; banker's acceptances that are eligible for purchase by the Federal Reserve Banks and have a letter of credit rating of AA or better; and tax exempt obligations of the state and its various local governments with a rating of A or less with insurance through MBIA or an equivalent company or issues rated A+ with or without insurance backing. The County's policy exempts investments in the Virginia Non-Arbitrage Program in which the County invests pursuant to bond documents from this rating requirement.

Concentration of Credit Risk – The County places a limit on the amount it may invest with any one issuer as follows: 25% certificate deposits and municipal securities; 35% commercial paper; 40% bankers acceptances; 50% repurchase agreements; and up to 100% for state investment pools, US treasury bills and notes, and other U.S. Government agencies.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The County's ratings and policy limits as of June 30, 2005 are as follows:

Investment Type	Investment Policy Limit	Credit Quality (Rating)	Credit Exposure as a % of Total Investment
Money Market/ Money Market Mutual Funds:			
State Treasurer's Local Government Investment Pool (LGIP)	100%	AAA	30%
Virginia State Non-Arbitrage Program (SNAP)	100%	AAA	15%
Treasury Obligation Fund	100%	AAA	40%
U.S. Government Agency Securities	100%	AAA	15%
			<u>100%</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the counter party, the County will not be able to recover the value or collateral securities that are in the possession of an outside party. However, the County's investment policy requires that all securities purchased by the County be properly and clearly labeled as an asset of Fauquier County and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-45-14 of the *Code of Virginia*. Therefore the County has no custodial credit risk.

Reconciliation of total cash and investments to the entity-wide financial statements at June 30, 2005 are as follows:

	Total Cash and Investments
Primary Government and discretely presented component unit – School Board:	
Total Investments	\$ 58,428,267
Add: Cash on Hand	4,177
Cash – Detention Center	5,387
Deposits	<u>15,312,168</u>
Total Reporting Entity Cash and Investments	\$ <u>73,749,999</u>

	Governmental Activities	Business Type Activities	Total	Component Unit – School Board	Fiduciary Funds (held by county)	Total Reporting Entity
Cash and Pooled Investments	\$ 67,887,978	\$ 3,937,942	\$ 71,825,920	\$ 710,150	\$ 1,213,929	\$ 73,749,999

Restricted cash and investments consist of amounts required by bond financing terms to be segregated in a closure fund for the Landfill Revenue Bond, capitalized interest accounts required to be used for capital expenditures, arbitrage rebate, and unspent debt proceeds required to be used for capital projects are as follows:

Restricted Cash and Investments at June 30, 2005:

Capital Project Fund:

General Obligation Bond Proceeds	\$ 4,453,184
Revenue Bond proceeds	495,914
Total Capital Project Fund	<u>4,949,098</u>

Enterprise Funds:

Revenue Bond Funds – Landfill	<u>3,769,146</u>
Total Enterprise Funds	<u>3,769,146</u>

Total Restricted Cash and Investments	\$ <u>8,718,244</u>
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